LEVIY CONTROL FRAMEWORK AND DECC'S CONSUMER FUNDED POLICIES REPORT

Thank you for your letter of 17 November 2014 requesting further details regarding DECC’s consumer funded policies report. I am pleased you found its publication alongside the Prices and Bills report helpful – so that we can set out on a clear and consistent basis at a point in time, what has been done, what has been achieved and at what cost. The Department will do the same in future years. In response to your queries:

- I would like to assure you there is no over-commitment of the LCF in 2016/17. The text of the report makes clear that the Department does not anticipate expenditure to breach the LCF cap in any year. This is because it is very unlikely that the entire Contract for Difference (CfD) budget made available will be allocated in the auctions. 2016/17 for example is the first year that budget is available in the pot for ‘less established’ technologies. Projects commissioning in that year would not be expected to generate for the whole year.

- You are quite right to note that significant commitments have been made against the LCF in future years. This will drive continued progress towards our renewables and low carbon ambitions. However, I am satisfied there is sufficient room to manage the inherent uncertainties associated with expenditure under the levy schemes – around £1 billion remains unallocated in 2020/21 for example. Headroom arrangements above the LCF cap provide additional flexibilities to manage temporary spending risks. Full details of these flexibilities can be found in HM Treasury’s document ‘Control Framework for DECC levy-funded spending’.

- Ofgem, as administrator of the Renewables Obligation (RO), Feed-in Tariff (FIT) and Warm Home Discount schemes, validates data on scheme outcomes and publishes individual annual reports on each scheme, setting out outcomes and
overall scheme expenditure. Before reporting, Ofgem undertakes a variety of assurance and fraud prevention activities to satisfy itself that the data energy suppliers provide on their activities under the schemes are robust. The historical spend and deployment data in table 1 is drawn from Ofgem’s annual reports, with the exception of the RO and FITs outturn figures for 2013/14. The RO annual report for 2013/14 will not be published until February 2015 and the FIT scheme report will be published in December – however, I did not wish that timetable to delay publication of the consumer funded policies report this Autumn. Historical ECO costs are based on reporting from energy companies, price information from the fortnightly traded brokerage contracts and statistics on the delivery of measures delivered into the market. My officials are in discussions with the National Audit Office about an appropriate audit regime for the consumer funded policies report going forward.

- On the appraisal of the relationship between the LCF and overall policy targets, the LCF is sufficient to support the investment needed to meet Government’s renewable and low carbon ambitions. As set out in the Annual Energy Statement, the estimated £45bn investment achieved in the electricity sector between 2010 and 2013 demonstrates good progress towards the further investment that we estimate is necessary between 2014 and 2020 (up to £100bn). This estimated investment is aligned with the expected deployment published in the Delivery Plan for Electricity Market Reform, to ensure the electricity system is contributing to the UK’s target of 15% renewable energy by 2020, which we expect to include over 30% renewable electricity. I have asked my officials to discuss with Committee staff how such an appraisal might best be presented in the consumer funded policies report in future.

- The LCF was agreed to 2020/21 to give as much long-term certainty to investors as possible. It is very rare for Government to agree spending this far in advance and across Parliaments. This demonstrates the importance Government has placed both on securing investment in low carbon electricity generation and keeping consumer bills affordable. However, we do recognise the challenges this poses for developers of projects that plan to commission in the next decade (i.e. beyond 2020/21). At this stage in the parliamentary cycle, Government is not in a position to make any longer-term funding commitments. That has to be a matter for the next Government. The Committee on Climate Change acknowledged this when they recommended in their Sixth Annual Progress Report that funding for beyond 2020 is committed by 2016.

- Before any post-2020 funding decisions are taken, I am confident however that investors recognise that further growth and development of the low carbon electricity generation industry in the UK will remain a priority – not least because of the UK’s ambitious, legally binding targets to reduce carbon emissions, and the recently announced 2030 EU Climate and Energy Package, where Member States will be expected to contribute their fair share.

I have seen the Chair of the Liaison Committee’s recent letter to the Chief Secretary to the Treasury and I am reflecting on the points raised. Arrangements for Parliamentary oversight of taxation and spending are of course the responsibility of the Chief Secretary to the Treasury.

As requested, I have asked my officials to contact your Committee staff and colleagues in the Scrutiny Unit to discuss all these matters in more detail.
I am copying this letter to the Chair of the Liaison Committee and to the Chief Secretary to
the Treasury.

EDWARD DAVEY